



MORNING BRIEFING

November 9, 2020

God Bless James Madison

Check out the accompanying [chart collection](#).

(1) Meet the author of the US Constitution. (2) Gridlock by design is driving politicians mad, causing deranged partisanship. (3) Investors have learned to tune out the noise from Washington. (4) Awaiting final vote on gridlock in two January Senate races in Georgia. (5) Less fiscal stimulus and another looming shutdown. (6) Investors happy that Blue Wave agenda probably stymied by gridlock. (7) Still looking like V-shaped recovery in labor market. (8) Productivity growth rebounding in the Roaring 2020s. (9) The productivity-pay gap is a big myth that's been around too long. (10) Movie review: "The Queen's Gambit" (+ + +).

US Politics: And the Winner Is . . . Gridlock! The good news is that my candidate won! His name is James Madison. He was the Founding Father who wrote the US Constitution. He designed our nation's system of checks and balances, otherwise known as "gridlock." I was rooting for gridlock, and gridlock apparently won. In the October 21 [Morning Briefing](#), I wrote:

"I agree with the widely held view that gridlock is bullish for the stock market. In our civics classes in high school, gridlock was called 'checks and balances.' The Founders created this constitutional system to reduce the risk of political extremism. They designed the system so that more often than not, politicians on either side of the aisle wouldn't have unchecked power. In the past when one party ruled the White House and both houses of Congress, the electorate had the choice of depriving them of that power every two years, which is what it did on a regular basis, though not necessarily every two years."

I also wrote that Joe and I "still have a target of 3800 for the S&P 500. We just aren't sure whether that happens by mid-2021 or by the end of this year." The S&P 500 rose to a record high of 3580.84 on September 2 ([Fig. 1](#)). It then dropped 9.6% from September 2 through September 23, to 3236.92, before rebounding 9.2% through October 12 to 3534.22. Then it swooned again to 3269.96 on Friday, October 30. That seems to have been the end of Panic Attack #67, which was mostly about election jitters. The market rallied 7.3% since then to close at 3509.44 on Friday, with most of the gain occurring since Election Day.

Joe Biden won, but he certainly didn't hang 10 on a Blue Wave. The Republicans seem to have held onto their Senate majority, though the final outcome depends on a couple of Senate seats in Georgia that won't be decided until early January. On November 6, [The Hill reported](#): "Democrats are pinning their hopes on being able to force a 50-50 Senate on a narrow, uphill path that requires them to win both seats in the typically red state. If Democratic nominee Joe Biden wins the White House, a 50-50 margin would hand them the majority because Vice President Kamala Harris could break a tie."

If they don't win both races, Democrats won't have the unchecked powers they had hoped to achieve with the election—so, no tax hikes, no massive fiscal spending programs, no bailouts for states run by Democrats, no Green New Deal, and no packing of the Supreme Court. Having a divided Congress also rules out the prospect of nationalizing the healthcare system, though now we may all be required to wear masks. No wonder that the Health Care sector of the S&P 500 has outperformed the S&P 500 since the October 30 retest of the September 23 low.

Here is the performance derby of the 11 sectors of the S&P 500 since then through Friday's close: Information Technology (9.7%), Health Care (8.3), Materials (7.6), Communication Services (7.6), S&P 500 (7.3), Industrials (7.2), Consumer Staples (4.6), Financials (4.5), Real Estate (4.4), Utilities (2.8), and Energy (0.8). The Communication Services and Technology sectors also outperformed, mostly because they are less likely to be regulated under Biden than they might have been under Trump. The tech titans contributed millions of dollars to this year's political campaigns, mostly to Democratic candidates. (See our [Performance Derby October 30-November 6, 2020](#).)

The bad news is that gridlock guarantees another two years of deranged partisanship in Washington at least until the mid-term elections of 2022 and most likely longer. Most of us have learned how to tune out the noise; investors are no exception: The stock market has done well since March 2009 despite the increasing rancor among our political class. It should continue to do so.

The immediate question ahead is whether the Democrats and Republicans can look past their differences and agree on another fiscal stimulus program to support pandemic-challenged businesses and unemployed workers. I expect that they will but that the package will likely be half the size of the \$2.2 trillion CARES Act.

One more thing: Our gridlock-challenged politicians need to avert a government shutdown in December. The lame-duck Congress, in business until early January, has been working since October 1 under a temporary budget that expires on December 11, with the Senate having failed to pass any of the 12 spending bills needed to run government activities. At stake is the approximately \$1.3 trillion in discretionary spending for defense and non-defense activities. This does not include huge programs operating on automatic pilot, such as the Social Security retirement plan and federal healthcare programs for the poor and elderly. It also does not include “emergency” funds for natural disasters, pandemic relief, and other unexpected events.

A government shutdown is either a utopian or dystopian outcome of gridlock depending on how you feel about our government when it’s open for business. In any event, God Bless America, and James Madison too!

I’m assuming that when the time comes, Donald Trump will leave the White House peaceably. Love him or hate him, he will remain a powerful political force and undoubtedly will continue to fight with the political and media establishment whether banned by Twitter or not.

US Economy I: Labor Market Recovering. Americans clearly want to go back to work, and employers are rehiring them. The labor market recovery still looks mostly V shaped. Fears that the Payroll Protection Program would provide only temporary support to employment seem unfounded so far. Generous unemployment insurance benefits might have discouraged some workers from going back to work earlier in the pandemic, but they’re doing so now that the benefits are reduced or running out. Let’s have a closer look at the latest labor market stats, which Debbie discusses in even greater detail below:

(1) *ADP payrolls*. First, the bad news. Last Wednesday, ADP reported a disappointing increase of 365,000 in October’s private payrolls to 119.4 million ([Fig. 2](#)). That puts it 9.7 million above the April low but still 10.0 million below February’s record high of 129.4 million. During October, employment in service-providing industries increased 348,000, while employment in goods-producing ones rose only 17,000 ([Fig. 3](#)).

(2) *BLS payrolls*. Then on Friday, the Bureau of Labor Statistics (BLS) reported that payroll employment rose 638,000, with private payrolls up 906,000 during October and the previous two months revised higher by 15,000 and 21,000, respectively, thus continuing to trace out a V-shaped recovery. That puts total payrolls up 12.1 million above the April low but still 10.1 million below February’s record high of 152.5 million. During October, employment in private-

sector service-providing industries increased 783,000, while employment in goods-producing ones rose 123,000 ([Fig. 4](#)).

(3) *Earned Income Proxy*. The 0.8% m/m gain in private payrolls—combined with the average workweek unchanged at 34.8 hours and average hourly earnings up 0.1%—caused our Earning Income Proxy (EIP) for private-sector wages and salaries to rise 0.9% during October ([Fig. 5](#) and [Fig. 6](#)). Both aggregate weekly hours and our EIP continued their V-shaped recoveries that started in May through the latest data, in October.

(4) *Household employment & unemployment*. The payroll employment data compiled by the BLS counts the number of jobs. The household employment data count the number of people with both full-time and one or more part-time jobs. Household employment soared 2.24 million during October. That well exceeded the 724,000 increase in the labor force, causing the number of unemployed workers to drop by 1.5 million to 11.1 million ([Fig. 7](#)). The unemployment rate dropped to 6.9% from the recent high of 14.7% during April ([Fig. 8](#)). That's the fastest drop in the jobless rate ever, following the fastest increase ever earlier this year!

US Economy II: Productivity Soaring. Nonfarm business productivity always rebounds during economic recoveries as output increases faster than labor input ([Fig. 9](#)). This time, it actually recovered during Q2, which was the worst of the two-quarter recession, with a gain of 10.6% q/q (saar). That was followed by an increase of 4.9% during Q3, when nonfarm business output soared 43.5% (saar) while hours worked increased 36.8%. (Recall that real GDP increased 33.1%, saar, during Q3.)

Debbie and I believe that productivity growth has been heading toward a secular rebound during the post-pandemic “Roaring 2020s.” Even before the Great Virus Crisis (GVC), companies had been moving to incorporate into their businesses a host of state-of-the-art technologies in the areas of computing, telecommunications, robotics, artificial intelligence, 3-D manufacturing, the Internet of Things, among others. The GVC is accelerating that trend as companies rethink how to do business ever more efficiently in the post-pandemic era.

The 20-quarter average annual growth rate in productivity dropped from the most recent secular peak of 4.0% during 2003 to just 0.6% during 2015. It rose to 1.8% during Q3 of this year. A secular rebound in productivity would certainly help to offset any inflationary pressures as a result of the likely move away from just-in-time supply chains operating on a global basis, wherever labor costs were lowest, to just-in-case onshore supply chains. This shift is partly

attributable to the lessons learned from the pandemic as well as the worsening Cold War between the US and China.

US Economy III: The Productivity-Pay Gap Myth. While Debbie and I are rooting for a secular rebound in productivity growth in coming years, Progressives have been quick to point out that productivity gains haven't trickled down to workers for decades. They observe that there has been a widening gap between productivity and pay since the mid-1970s. This myth has been promoted by the Economic Policy Institute (EPI) in Washington, DC for a long time.

The EPI's [website](#) states that the "nonprofit, nonpartisan think tank" was created in 1986 "to include the needs of low- and middle-income workers in economic policy discussions. EPI believes every working person deserves a good job with fair pay, affordable health care, and retirement security."

That's certainly a worthy cause that is always at the top of the agenda for any partisan Progressive organization. However, as happens all too often, Progressives are too quick to seize upon misleading data that seemingly support their case for new policies to achieve their goals. They are never satisfied with what they have already accomplished with the New Deal, the Great Society, and Obamacare.

The EPI has plenty of top-notch economists and researchers who spend their days looking to improve the lot of workers. The website states: "To achieve this goal, EPI conducts research and analysis on the economic status of working America. EPI proposes public policies that protect and improve the economic conditions of low- and middle-income workers and assesses policies with respect to how they affect those workers."

The website brags that "[i]n the 1990s EPI researchers were the first to illustrate the decoupling of productivity and pay in the U.S. economy, a trend now widely recognized as a key element of growing economic inequality." This claim was most recently updated by the EPI in a July 2019 post titled "[The Productivity-Pay Gap](#)." It features a compelling chart showing that inflation-adjusted hourly compensation tracked productivity very closely from the late 1940s through the 1960s. But since the 1970s, the former has lagged the latter, resulting in a widening gap between the two. The conclusion is obviously disturbing: "This means that although Americans are working more productively than ever, the fruits of their labors have primarily accrued to those at the top and to corporate profits, especially in recent years."

Not surprisingly given the EPI's partisan approach to research, their supporting data are seriously flawed. They made a rookie's mistake: using the wrong price deflator to adjust hourly compensation. They are using the Consumer Price Index (CPI), which long has been recognized as having an upward bias; doing so weighs misleadingly on real hourly compensation, creating a totally bogus gap!

To be fair, they are following the lead of the Bureau of Labor Statistics (BLS), which releases the production and compensation data on a quarterly basis in a [report](#) titled "Productivity and Costs." Table footnote (2) states that real hourly compensation—which includes wages and salaries of employees plus employers' contributions for social insurance and private benefit plans—is deflated by "the Consumer Price Index for all urban consumers (CPI-U). The trend from 1978-2019 is based on the Consumer Price Index research series (CPI-U-RS)."

So here is the true story:

(1) *In theory*. In a market economy, competitive forces tend to cause inflation-adjusted pay to be commensurate with labor's marginal productivity. The motto of many labor organizers in the past and now is: "A fair day's wage for a fair day's work." A competitive economy tends to make that ideal happen without any policy intervention.

(2) *In practice*. We can close more than half of the productivity-pay gap simply by dividing hourly compensation by the personal consumption expenditures deflator (PCED) instead of the CPI ([Fig. 10](#)). We can close it even more by using the nonfarm business price deflator (NFBD). During Q3-2020, the gap was 50.0% using the CPI, 26.1% using the PCED, and only 12.8% using the NFBD.

(3) *Deflator roulette*. It's bizarre that BLS still uses the CPI to deflate hourly compensation. It's even more bizarre since the BLS reports the NFBD in the same quarterly release. From Q1-1947 through Q3-2020, the CPI is up 1,112%, while the PCED is up 864% and the NFBD is up 772% ([Fig. 11](#)).

(4) *The logical price*. But why does it make more sense to use the NFBD than the PCED? NFBD is the price level that actually matters to employers when they do their explicit or implicit calculations of the marginal cost of labor. Workers' purchasing power obviously depends on the prices of items—such as rent, gasoline, and healthcare—that are included in the PCED but

not in the NFBD. However, in a competitive market economy, employers pay for a fair day's work, not for the cost of living.

I am ready to debate that last point and will do so in coming commentaries on this subject. However, for now, there is no debating that the productivity-pay gap is too small to play as large a role in income inequality as the folks at the EPI and other Progressives believe. Our market economy works just fine. Since Q1-1971 through Q3-2020, real hourly compensation using the NFBD is up 415%, in line with the 468% increase in productivity and well above the 371% and 312% increases using the PCED and CPI. The data confirm that the purchasing power of workers has kept pace with their productivity. There has been no stagnation in the standard of living. Period.

Movie. "The Queen's Gambit" (+ + +) ([link](#)) is a binge-able Netflix miniseries about a fictional young lady by the name of Beth Harmon who learns to play chess from a janitor in her orphanage at the age of nine. She becomes the world's greatest chess player by the age of 22. Along the way, she struggles with emotional issues and drug and alcohol dependency. The cast is incredible, with Anya Taylor-Joy starring as Beth. Her intense obsession with winning the game is mesmerizing. This is a must-see. If we get locked up again, I'm going to work on my chess game for sure.

CALENDARS

US: **Mon:** Harker, Mester. **Tues:** NFIB Small Business Optimism Index 102.2, Job Openings 5.59m, API Crude Oil Inventories, Brainard, Quarles. (DailyFX estimates)

Global: **Mon:** Germany Balance of Trade €15.8b, Japan Leading & Coincident Indicators 88.6/79.0, China CPI 0.2%*m/m*/0.8%*y/y*, Lagarde, Mersch, Bailey, Haldane. **Tues:** Germany ZEW Economic Sentiment Index 40, Germany ZEW Current Conditions -65, France Unemployment Rate 7.5%, France Industrial Production 0.7%, Italy Industrial Production -2.5%*m/m*/-2.2%*y/y*, UK Employment Change & Unemployment Rate -135k/4.8%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance ([link](#)): Last week saw the US MSCI index soar 7.6% for its biggest gain since early April. The index ranked 27th of the 49 global stock markets we

follow in a week when 47 of the 49 countries rose in US dollar terms and the AC World ex-US index also rose 7.6%. The US MSCI index was out of a correction for a 19th week; it's now 1.6% below its record high on September 2. EM Eastern Europe was the best-performing region last week with a gain of 12.1%, followed by EM Latin America (11.1%), EMU (9.4), and EAFE (8.1). EM Asia was the biggest underperformer, albeit with a gain of 5.9%, followed by BRIC (6.5) and EMEA (6.7). Poland was the best-performing country last week, rising 17.0%, followed by Hungary (16.3), Argentina (15.1), South Africa (13.7), and Brazil (12.8). Among the 21 countries that underperformed the AC World ex-US MSCI last week, Morocco fared the worst with a decline of 0.1%, followed by Jordan (0.0), Pakistan (0.8), Egypt (3.0), and Sri Lanka (3.1). The US MSCI's ytd ranking dropped one spot w/w to 7/49 even as its ytd gain soared to 10.8% from 2.9%. The AC World ex-US rose 6.8ppts w/w to a 2.5% ytd decline. EM Asia is the best regional performer ytd, with a gain of 16.2%, followed by BRIC (10.3). The worst-performing regions ytd: EM Latin America (-31.2), EM Eastern Europe (-29.4), EMEA (-21.8), EMU (-7.4), and EAFE (-5.5). The best country performers ytd: Denmark (32.4), China (27.9), Taiwan (17.9), Korea (13.1), and Sweden (12.1). The worst-performing countries so far in 2020: Colombia (-44.9), Greece (-42.9), Brazil (-36.3), and Turkey (-36.1).

S&P 1500/500/400/600 Performance ([link](#)): All three of these indexes rose sharply last week. LargeCap led with a 7.3% gain, its biggest since mid-April. MidCap rose 6.7% for its largest gain since early June, and SmallCap was up 5.5%. LargeCap improved to 2.0% below its record high on September 2, and has been out of a bear market for 30 weeks and out of a correction for 19 straight weeks. MidCap remained out of a correction for a sixth week, and improved to 3.8% below its record high on February 20. SmallCap moved back out of a bear market yet again, and improved to 15.8% below its August 29, 2018 record high. Thirty-one of the 33 sectors rose last week, compared to all 33 falling a week earlier. Sixteen sectors are out of a correction now, and three ended the week at a record high: LargeCap Health Care, LargeCap Materials, and MidCap Tech. Of the 16 out of a correction, seven are LargeCaps, five are MidCaps, and four are SmallCaps. MidCap and SmallCap Tech were the best performers last week with gains of 9.8%, followed closely by LargeCap Tech (9.7%) and SmallCap Communication Services (9.3). MidCap Energy was the biggest underperformer last week with a decline of 2.6%, followed by SmallCap Energy (-1.2), LargeCap Energy (0.8), and SmallCap Utilities (1.5). LargeCap is the only one of the three broad cap-size indexes that's risen for the year so far, with a gain of 8.6%, ahead of MidCap (-1.7) and SmallCap (-9.4). Fifteen of the 33 sectors are now up so far in 2020, with the best performers led by LargeCap Information Technology (32.7), LargeCap Consumer Discretionary (27.6), MidCap Health Care

(22.5), LargeCap Communication Services (16.4), and MidCap Consumer Staples (14.7). The biggest laggards of 2020 to date: SmallCap Energy (-59.7), MidCap Energy (-55.1), LargeCap Energy (-52.1), SmallCap Real Estate (-30.2), and MidCap Real Estate (-27.5).

S&P 500 Sectors and Industries Performance ([link](#)): All 11 S&P 500 sectors rose last week, with five outperforming the composite index's 7.3% gain. That compares to a 5.6% decline for the S&P 500 a week earlier, when all 11 sectors fell and six outperformed the index. Tech's 9.7% gain made it the best performer of the week, ahead of Health Care (8.3%), Materials (7.6), Communication Services (7.6), and Consumer Discretionary (7.4). The worst performers, albeit with gains: Energy (0.8), Utilities (2.8), Real Estate (4.4), Financials (4.5), Consumer Staples (4.6), and Industrials (7.2). The S&P 500 is now up 8.6% so far in 2020, with just four sectors ahead of the index and six sectors in positive territory. The leading sectors ytd: Information Technology (32.7), Consumer Discretionary (27.6), Communication Services (16.4), and Materials (10.7). The laggards of 2020 so far: Energy (-52.1), Financials (-19.0), Real Estate (-8.1), Utilities (-0.8), Industrials (-0.1), Consumer Staples (3.4), and Health Care (7.9).

Commodities Performance ([link](#)): Last week, the S&P GSCI index rose 2.6%, paced by gains for 22 of the 24 commodities that we follow. It's now down 21.4% from its recent high on January 6 and still in a severe bear market at 30.4% below its four-year high on October 3, 2018. Silver was the best performer last week with a gain of 8.7%, followed by GasOil (5.7%), Heating Oil (5.4), Unleaded Gasoline (4.9), and Zinc (4.3). Natural Gas was the biggest decliner for the week with a drop of 13.0%, followed by Lean Hogs (-0.4) and Cotton (0.0). Twelve of the 24 commodities that we follow are higher so far in 2020, unchanged from a week earlier. The best ytd performers: Silver (43.4), Natural Gas (33.2), Gold (28.2), Zinc (15.3), and Soybeans (15.3). The worst performers ytd: GasOil (-47.1), Heating Oil (-43.4), Brent Crude (-40.1), Crude Oil (-39.1), and Unleaded Gasoline (-35.9).

S&P 500 Technical Indicators ([link](#)): The S&P 500 soared 7.3% last week and moved back above its short-term, 50-day moving average (50-dma) after one week below and remained above its 200-dma for a 19th week. It had been below its 200-dma for 13 weeks through late May, matching its prior streak that ended during February 2019. Turning to how the dmAs compare relative to one another, the index's 50-dma relative to its 200-dma weakened for a second week after 23 weeks of gains, but the index was in a Golden Cross (with 50-dmas higher than 200-dmas) for a 18th week after 15 weeks in a Death Cross. Before the 2020 meltdown, the S&P 500 had last been in a Death Cross for 13 straight weeks, ending in March

2019. The index's 50-dma dropped last week to 8.6% above its 200-dma from 8.9% above in the prior week and 9.1% the week before that. That 9.1% reading had been the highest since April 2011. In mid-May, the 50-dma had been 9.9% below the 200-dma, which was the most that the former had lagged the latter since May 2009. Turning to the individual dmAs, the S&P 500's 50-dma rose a hair after falling a week earlier for the first time in 24 weeks. The price index improved to 3.2% above its barely rising 50-dma from 3.9% below its falling 50-dma a week earlier. It had been trading above its 50-dma since late April and peaked in early June at 11.7% above the index's 50-dma, which was the highest since May 2009, when it peaked at a record high of 14.0%. That compares to 27.7% below on March 23—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The 200-dma turned up too after falling a week earlier for the first time in 24 weeks, and the price index was above its 200-dma for an 18th week. The price index jumped to 12.1% above its rising 200-dma from 4.6% above its rising 200-dma. That compares to 13.7% above at the end of August, which was the highest reading since February 2011. Last week's 12.1%-above reading is up from the 26.6% below registered on March 23—the lowest reading since March 2009. At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008.

S&P 500 Sectors Technical Indicators ([link](#)): Nine of the 11 S&P 500 sectors traded above their 50-dmas last week, up sharply from just one a week earlier. That compares to all 11 sectors above in the three weeks around the start of June. Utilities was above its 50-dma for a sixth straight week. Energy and Utilities are the only sectors still below their 50-dmas. Ten sectors traded above their 200-dmas, up from eight a week earlier. Energy is the only sector trading below its 200-dma. That compares to just one sector (Health Care) above its 200-dma in early April. Ten sectors are now in the Golden Cross club (50-dmas higher than 200-dmas), unchanged from a week earlier. Energy is the only sector still in a Death Cross, and has not been in that club for 104 straight weeks. Six sectors have a rising 50-dma, up from two a week earlier as these sectors joined Materials and Utilities in the latest week: Communication Services, Consumer Discretionary, Health Care, and Industrials. That's still down from nine sectors with a rising 50-dma in late October. In early June, the 50-dma had been rising for all 11 sectors for three straight weeks. That was a big improvement then from the beginning of May, when all 11 had falling 50-dmas for ten straight weeks. Seven sectors have rising 200-dmas, up from four a week earlier. These four sectors have falling 200-dmas: Energy, Financials, Real Estate, and Utilities. Financials' 200-dma was down for a 35th week despite moving into the Golden Cross club in mid-October. Energy's 200-dma has been mostly falling

since October 2018.

US ECONOMIC INDICATORS

Employment ([link](#)): Payroll employment rose for the sixth month in October, by a much larger-than-expected 638,000 (vs 530,000 expected), and there were upward revisions to both September (to 672,000 from 661,000) and August (1.493 million from 1.489 million) payrolls, for a net gain of 15,000. Meanwhile, private payrolls advanced 906,000 last month (541,000 higher than ADP's gain of 365,000), following upward revisions to September (892,000 from 877,000) and August payrolls (1.028 million from 1.022 million)—for a net gain of 21,000. Total and private payroll employment advanced 12.1 million and 12.3 million, respectively, during the six months through October, after plunging 22.2 million and 21.1 million during the two months through April—with both recovering more than half of the jobs lost from February through April. Service-providing jobs have rebounded 10.8 million during the six months ending October, still 7.9 million below February's record high of 108.5 billion, while goods-producing jobs have climbed 1.5 million to within 1.0 million of their February peak of 21.2 million—though these industries weren't as hard hit as the service sector. Here's a tally of industry performances from strongest to weakest during the six months through October, and where they stand relative to February's pre-pandemic levels: Leisure & hospitality (4.83 million & -3.49 million), retail trade (1.89 million & -498,500), professional & business services (1.15 million & -1.15 million)—led by temporary-help services (549,200 & -342,700), health care (987,800 & -589,800), construction (+789,000 & -294,000), manufacturing (742,000 & -621,000), social assistance (332,000 & -360,400), transportation & warehousing (299,000 & -270,700), financial activities (150,000 & -129,000), education (135,300 & -375,600), wholesale trade (93,600 & -303,600), and information services (23,000 & -262,000). Mining added to payrolls for only the third time in 10 months in October, down 90,000 over the period.

Earned Income Proxy ([link](#)): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, climbed 0.9% in October and 11.3% during the six months ending October; this followed a 12.4% decline during the two months through April to the EIP's lowest reading since spring 2017. The average hourly earnings component of the EIP increased for the fourth month, by 0.1% in October and 0.6% over the six-month period—after falling 2.4% during the two months ending June. However, the recent declines in hourly earnings were more than offset by a rebound in aggregate weekly hours, the EIP's other component. Aggregate weekly hours advanced for the sixth month, by 0.8% in October and 13.3% over the period, after plunging 15.2% in April. Compared to a year ago, the EIP

contracted 0.9% y/y—narrowing from April's 8.9% drop—as the y/y decline in aggregate weekly hours slowed to 5.4% from 15.7% in April, while average hourly earnings rose 4.5% y/y, down from 8.0% in April.

Unemployment ([link](#)): The unemployment rate fell for the sixth month, to 6.9%, in October; this followed a huge jump in prior months—from a 50-year low of 3.5% in February and 4.4% in March up to an unprecedented monthly rate of 14.7% in April. The number of unemployed fell by 12.0 million during the six months ending October to 11.1 million; prior to that, the number had soared by 17.3 million over the two months through April to a record-high 23.1 million, which well exceeded the previous record high of 15.4 million recorded in October 2009. The number of unemployed persons on temporary layoff fell to 3.2 million last month from 4.6 million in September and 18.1 million in April—a sign that businesses are bringing back workers, though some may be shifting to longer-term unemployment. Unemployment rates in October continued to fall among all major worker groups: Adult males (to 6.7% from 13.0% in April), adult females (6.5 from 15.5), and teenagers (13.9 from 31.9). These rates were at 3.3%, 3.1%, 11.0%, respectively, in February. By race, unemployment rates for both Whites (to 6.0% from 14.2% in April) and Hispanics (8.8 from 18.9) continued to fall in October from April's record highs. In the meantime, the rate for Asians (7.6% from 15.0% in May) was down from May's record high, while the rate for African Americans (10.8% from 16.8%) was down from May's cyclical high. These rates were at 3.1%, 4.4%, 2.5%, and 5.8%, respectively, in February. Here's a snapshot of October's unemployment rates by education level, all of which dropped from April record highs: less than a high school degree (to 9.8% from 21.2%), high school degree (8.1 from 17.3), some college (6.5 from 15.0), and a Bachelor's degree & higher (4.4 from 8.4). These rates had been at 5.7%, 3.6%, 3.0%, and 1.9%, respectively, in February, prior to pandemic lockdown effects. The participation rate rose to 61.7% last month, after dipping to 61.4% in September; it's up from 60.2% in April, though 1.7ppts below February's 63.4%.

Wages ([link](#)): Average hourly earnings increased three of the past four months, increasing 0.1% in October and 0.6% over the period; earnings had dropped 2.4% during the two months ending June. The drop in May and June reflected lower-paid workers, on temporary leave, returning to work; their absence from the job market had pushed hourly earnings up 4.7% during April alone. The yearly wage rate for private industry was little changed at 4.5% y/y in October, moving in a virtual flat trend the past four months; it was at a record of 8.0% y/y in April. The yearly wage rate for service-providing industries has been moving sideways in recent months at 4.9% y/y; it peaked at 8.7% in April. The goods-producing rate fell to a 14-

month low of 2.9% y/y last month; it was at 5.0% in April. Within goods producing, wage rates for both manufacturing (3.2% y/y) and natural resources (2.7) are on downtrends, while the rate for construction (2.8) remains in a flat trend. Within services-providing industries wage rates for financial activities (6.8% y/y) and utilities (6.4%) are on steep uptrends, with the rate for financial activities at a record rate. In the meantime, the rate for information services (5.9% y/y) has been on an upswing since falling to a seven-month low of 2.6% in August, while the rate for educations & health services (2.6) has been heading down. The rates for both retail trade (6.6% y/y), wholesale trade (3.3), and transportation & warehousing (2.4) are in volatile flat trends, while the rates for professional & business services (3.9) and leisure & hospitality (2.4) are stuck around recent lows.

GLOBAL ECONOMIC INDICATORS

Eurozone Retail Sales ([link](#)): Retail sales in the Eurozone contracted more than expected in September as spending on all categories fell during the month, after a sharp jump in clothing (15.9%) and online (12.7) spending in August boosted overall sales to a new record high that month. Sales slipped 2.0% in September after rebounding three of the prior four months by a total of 30.2%, which more than reversed the 20.8% Covid-related drop during March and April. Clothing (-7.6%) and online (-5.5) sales posted the biggest declines in September, followed by non-food products ex oil (-2.6) and pharmaceutical & medical goods (-2.2). Three of the top four Eurozone economies have reported sales for the month of August, and all showed a dip: France (-4.5), Germany (-2.2), and Spain (-0.4). These sales soared 53.9%, 13.7%, and 41.2%, respectively, from April through August—to new record highs for both France and Germany, and a cyclical high for Spain.

Germany Manufacturing Orders ([link](#)): “After a first strong recovery following the lockdown in April, industry continues to fight its way out of the crisis,” Germany's economic ministry said. Factory orders continued to advance in September, but the pace slowed considerably, as orders from within the Eurozone fell for the first time in five months. Total orders edged up 0.5% in September after soaring 53.9% during the four months through August; billings are within 3.8% of their pre-pandemic reading. Domestic orders rose for the fourth time in five months, by 2.3% in September and 43.8% over the period—to within 3.4% of its pre-Covid level. Foreign orders dipped 0.8% in September, after a four-month surge of 64.4%, as billings from within the Eurozone sank 6.0% after a four-month rebound of 85.6%. In the meantime, orders from outside the Eurozone continued their ascent, rising 2.7% in September and 56.7% the past five months. Here's a look at the performance by market group for total, foreign, and

domestic orders, respectively, since bottoming in April: capital goods (84.2%, 66.0%, 96.3%), consumer durable goods (45.2, 52.2, 41.4), intermediate goods (31.5, 29.7, 33.5), and consumer nondurable goods (3.7, 2.0, 4.7). Only consumer durable goods orders have overcome their pre-Covid plunge—soaring to a new record high in September, along with foreign orders.

Germany Industrial Production ([link](#)): Industrial production increased in September for the fifth straight month, as revisions wiped away August's loss. Germany's headline production (which includes construction) climbed 1.6% last month and 21.4% during the five months through September, though is still 8.4% below pre-pandemic levels. Manufacturing output increased 2.0% and 28.7% over the respective periods and is 9.2% below its pre-pandemic reading. Excluding construction, production also advanced for the fifth month, by 1.7% in September and 26.9% since April—9.3% below its pre-Covid level. Here's a snapshot of movements in the main industrial groupings since April and where they stand relative to their pre-pandemic levels: capital goods (54.3% & -13.0%), consumer durable goods (31.9 & -6.4), intermediate goods (13.9 & -8.7), and consumer nondurable goods (11.3 & -2.4). Consumer durable goods production took a step back in September, falling 4.1% after a 37.5% four-month surge.

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